Supreme Court, U.S.
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No. _____

IN THE
SUPREME COURT OF THE UNITED STATES
OCTOBER TERM, 1996

SIMPLY FRESH FRUIT, INC. & P&C SERVICES, INC.
Petitioners,

v.

THE CONTINENTAL INSURANCE COMPANY
Respondent.

ON PETITION FOR WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

PETITION FOR WRIT OF CERTIORARI

Harlan P. Huebner
Edouard V. Rosa, Counsel of Record
LAW OFFICES OF HUEBNER & ROSA
900 Wilshire Boulevard
Suite 1000
Los Angeles, California 90017
Telephone: (213) 626-7766

Attorneys for Petitioners.

74 pp

Questions Presented For Review

1. Whether potential claims for trade dress infringement, false designation of origin and unfair competition in violation of the Lanham Act inherently involve "advertising activity".

2. Whether as a matter of law patent infringement claims within the meaning of 35 U.S.C. Section 271 in effect prior to January 1, 1996 can occur in the course of an insured's advertising activities.

3. Whether under California law a "duty to defend" attaches to potential claims in violation of the Lanham Act and Patent Act.

The Parties

The parties to this petition are listed in the caption of this case. In accordance with Supreme Court Rule 29.6, petitioners disclose that Unimark Group, Inc. is the parent company of petitioners and that the Continental Corporation is the parent company of Respondent.

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IN THE
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OCTOBER TERM, 1996

SIMPLY FRESH FRUIT, INC. & P&C SERVICES, INC.
Petitioners,

v.

THE CONTINENTAL INSURANCE COMPANY
Respondent.

Petition For Writ Of Certiorari To The United States Court Of Appeals For The Ninth Circuit

The petitioners, Simply Fresh Fruit, Inc. and P & C Services, Inc., respectfully pray that a writ of certiorari issue to review the decision of the United States Court of Appeals for the Ninth Circuit, Appeal No. 94-56061.

Opinions Below

The opinion of the Court of Appeals for the Ninth Circuit (App. A, infra, pp. A-2 thru A-11) is reported in 84 F.3d 1105. In an Order and Amended Opinion dated August 16, 1996, the Court deleted Footnote 2, from the reported opinion.

The opinion and order of the district court entered on June 28, 1994 (App. B, infra pp. B-12 thru B-25) from which appeal to the Court of Appeals for the Ninth Circuit was taken.

An order on rehearing of the Court of Appeals for the Ninth Circuit filed on May 28, 1996. (App. C, infra, p. C-26).

The judgment of the Court of Appeals for the Ninth Circuit entered on May 30, 1996 (App. D, infra, p. D-27).

Jurisdiction

The opinion of the Court of Appeals for the Ninth Circuit was entered on May 30, 1996. The jurisdiction of this Court is invoked under the United States Code, Title 28, Section 1254(1).

Constitutional Provision And Statutes Involved

To Promote the Progress of Science and Useful Arts, by Securing for Limited Times to Authors and Inventors the Exclusive Right to their Respective Writings and Discoveries.

[U.S. Constitution, Article I, § 8, cl. 8.]

Infringement of patent

(a) Except as otherwise provided in this title [35 USC §271 et seq.], whoever without authority makes, uses or sells any patented invention, within the United States during the term of the patent therefor,

infringes the patent[1].

(b) Whoever actively induces infringement of a patent shall be liable as an infringer.

(c) Whoever sells a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial non-infringing use, shall be liable as a contributory infringer.

* * * * *

[35 U.S.C. § 271]

Any person who, on or in connection with any goods or services, or any container for goods, uses in commerce any word, term, name, symbol, or device, or any combination thereof, or any false designation of origin, false or misleading description of fact, or false or misleading representation of fact, which

(a) is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or

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[1] Title 35, Section 271 (a) was amended effective January 1, 1996 to read in pertinent part as follows:

(a) Except as otherwise provided in this title [35 U.S.C. § 1 et seq.], whoever without authorization makes, uses, offers to sell, or sells any patented invention (emphasis added).

association of such person with another person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person, or

(b) in commercial advertising or promotion, misrepresents the nature, characteristics, qualities, or geographic origin of his or her or another person's goods, services, or commercial activities, shall be liable in a civil action by any person who believes that he or she is likely to be damaged by such act.

* * * * *

[15 U.S.C. § 1125]

The intent of this Act is to regulate commerce within the control of congress by making actionable the deceptive and misleading use of marks in such commerce; *** to protect persons engaged in such commerce against unfair competition.

* * * * *

[15 U.S.C. §1127]

A contract must be so interpreted as to give effect to the mutual intention of the parties as it existed at the time of contracting, so for as the same is ascertainable and lawful.

* * * * *

[Cal. Civ. Code, § 1636]

The words of a contract are to be understood in their ordinary and popular sense, rather than according to their strict legal meaning; unless used by the parties in a technical sense, or unless a special meaning is given to them

by usage, in which case a letter must be followed.

* * * * *

[Cal. Civ. Code, § 1644]

If the terms of a promise are in any respect ambiguous or uncertain, it must be interpreted in the sense in which the promisor believed, at the time of making it, that the promisee understood it.

* * * * *

[Cal. Civ. Code, § 1649]

In cases of uncertainty not removed by the preceding rules, the language of a contract should be interpreted most strongly against the party who caused the uncertainty to exist.

* * * * *

[Cal. Civ. Code, § 1654]

Statement of the Case

Background

The decision upon which review is sought is the Court of Appeals for the Ninth Circuit affirmance of the district court's granting of summary judgement. The district court had jurisdiction over the lawsuit pursuant to 28 U.S.C. §1332(a) and (c). Jurisdiction of the Court of Appeals to consider the district court's order was pursuant to 28 U.S.C. §1291. The original action was commenced by Simply Fresh Fruit, Inc. ("Simply Fresh") and P & C Services, Inc. ("P & C") (collectively "Petitioners") against The Continental Insurance Company ("Respondent") for breach

of contract and the implied covenant of good faith and fair dealing. The district court in applying California law held that the respondent had no duty to defend the petitioners in a third party's state misappropriation of trade secrets or federal patent infringement suits under the "advertising injury" provisions of their insurance policies.

Petitioners are in the business of processing and selling fresh fruit and fruit segments for use in salads and similar products [App. A, p. A-3]. At the time the lawsuits at issue arose Simply Fresh had engaged the services of P & C use its primary processing facility for its first products. Petitioners held separate insurance contracts with respondent the insurer whereby it agreed to defend and indemnify them for injuries suffered as a result of their business advertising activities.

Under the terms of respondent's insurance policies issued to petitioners, coverage extended to "advertising injury" only if caused by an offense: (1) in the "coverage territory" during the policy period; and (2) in the "course of advertising" their goods, products or services. Further for purposes of coverage, the relevant provisions defined "advertising injury" to include any "misappropriation of advertising ideas or style of doing business" [App. A, p. A-3].

During the time the policies were in effect, one of Simply Fresh's competitors, Reddi-Made Foods, Inc. ("Reddi-Made"), filed three lawsuits ("collectively the underlying actions") against petitioners. The first action was filed in California state court and contained allegations of (1) misappropriation of trade secrets, (2) breach of contract, (3)

violation of the uniform Trade Secrets Act, and (4) intentional interference with economic advantage. The second and third actions were filed in federal district and, once consolidated, alleged claims for patent infringement, contributory infringement and inducing infringement [App. A, p. A-4]. Although not included in the allegations of Reddi-Made's complaints, the record before the district court and Court of Appeals indicated that petitioners would on occasion give prospective and current customers tours of their newly automated processing facilities in order to highlight the improved quality of their cut fruit products [App. A, p. A-4].

Petitioners tendered the defense of the underlying actions to respondent. Respondent refused the tendered defense and denied coverage. Thereafter, Reddi-Made and petitioners settled the underlying actions, which were then dismissed with prejudice. The federal lawsuit pursuant to 28 U.S.C. section 1332 between the petitioners and respondent then followed [App. A, p. A-5].

On April 18, 1994, respondent filed a motion for summary judgment or partial summary judgment. Petitioners filed an opposition on June 6, 1994 and subsequently filed cross-motions for summary judgment on June 16, 1994. All the motions were removed from the calendar and taken under submission by the district court prior to the scheduled hearing date [App. A, p. A-5].

On June 28, 1994, the district court granted respondent's motion for summary judgment, and found that summary judgment in favor of respondent rendered the

cross-motions of petitioners moot [App. A, p. A-5].

A timely appeal was filed by petitioners on July 19, 1994. On May 28, 1996 the Court of Appeals for the Ninth Circuit affirmed the district Court's judgment [App. C, p. C-26].

On March 21, 1996, petitioners filed a petition for rehearing with suggestion for rehearing en banc. On May 28, 1996 the Court of Appeals for the Ninth Circuit denied the petition and the judgment affirming the district court's judgment was entered [App. D, p. D-27].

Reasons For Allowance Of The Writ

The Court of Appeals for the Ninth Circuit has, in this case, rendered a decision which is in conflict with Federal Constitutional and Statutory provisions relating to the scope of protection given to patentees to exclude others from making, using or selling their patented inventions as well as the decisions of the Supreme Court and Court of Appeals for the Federal Circuit interpreting the same. The Ninth Circuit decision is also in conflict with the statutory provisions of the Lanham Act, and prior Supreme Court and Ninth Circuit decisions as they relate to advertising activities which may support an action for trade dress infringement and false designation of origin.

Additionally, in rendering its decision, the Ninth Circuit has interpreted California law that is in conflict with both California statutory and decisional law as it relates to the interpretation of insurance contracts. Thus, petitioners

submit that this Court's granting of certiorari is justified.

Argument

I.

Potential Claims For Trade Dress Infringement, False Designation Of Origin And Unfair Competition Under The Lanham Act Inherently Involve "Advertising Activity".

When Section 43(a) of the Lanham Act (15 U.S.C. 1125 (a)) is used as a federal vehicle for asserting claims of trade dress infringement, false designation of origin and unfair competition the courts have used as substantive law the traditional rules of trademark infringement. See, Two Pesos, Inc. v. Taco Cabana, Inc., 505 U.S. 763, 776 (1992). There Justice Stephens in a concurring opinion stated:

> [T]he Court interprets this section [§43(a)] as having created a federal cause of action for infringement of unregistered trademark or trade dress and concludes that such a mark or trade dress should receive essentially the same protection as those that are registered.

Thus, the test of liability is likelihood of confusion. See New West Corp. v. NYM Co. of California, Inc., 595 F.2d 1194 (9th Cir. 1979).

Moreover, as set forth in McCarthy on Trademarks and Unfair Competition (3d ed. 1992 § 27.03 (2) (a)):

> In accordance with the rule in mainstream trademark law, under Lanham § 43(a) neither proof of actual injury nor proof of actual confusion is necessary. Thus, it is error for a court to find that plaintiff failed to prove injury caused by actual confusion and conclude that plaintiff has failed to establish a violation of § 43(a) (emphasis added).

Several courts have also held that "allegations of trademark and trade dress infringement inherently involve advertising activity"[2]. See Poof Toy Products, Inc. v. U.S. Fidelity and Guaranty Co., 891 F.Supp. 1228, 1234 (E.D. Mich. 1995). See also Advance Watch Co. v. Kemper National Ins., 878 F.Supp. 1034, 1039 (E.D. Mich. 1995).

In the present case, the Court of Appeals addressed this issue by saying:

> Under our decision in Microtec, even if [the potential claims for trade dress infringement, false designation of origin in violation of the Lanham Act, and common law unfair competition claims] could have been added, no potential coverage would exist under the advertising injury clause (emphasis added).

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[2] Bank of the West v. Superior Court, 2 Cal. 4th 1254, 1258 (1992) cited by the Ninth Circuit in its decision, does not define "advertising" nor did it address any issues involving the "duty to defend".

However, for the reasons set forth above petitioners submit that this holding is in direct contravention of prior Supreme Court and mainstream trademark law as it applies to § 43(a) Lanham Act violations which justifies a writ being issued in this case.

II.

Patent Infringement May Occur In The Course Of An Insured's Advertising Activities.

Title 35 U.S.C. § 271(a) prior to its amendment on January 1, 1996 incorporated the disjunctive language of the statutory patent grant which gives a patentee the "right to exclude others from making, using, or selling" a patented invention. See 35 U.S.C. § 154. Section 271(a) in force prior to January 1, 1996, under which this case is applicable, states as follows:

> [W]hoever without authority makes, uses or sells any patented invention, within the United States during the term of the patent therefore, infringes the patent.

In determining what type of conduct constitutes patent infringement the Court of Appeals for the Federal Circuit has held:

> It is beyond argument that performance of only <u>one</u> of the three enumerated activities is patent infringement. It is well established, in particular, that the <u>use</u> of a patented invention, without either manufacture or sale, is actionable. Thus, the patentee does not

> need to have any evidence of damage or lost sales to bring an infringement action (emphasis original) (citations omitted).

Roche Products, Inc. v. Bolar Pharmaceutical Co., Inc., 733 F.2d 858, 861 (Fed. Cir.), cert. denied, 469 U.S. 856 (1984) (superseded by statute).

Although the Court of Appeals for the Federal Circuit has not expounded on the outer limits of what constitutes "use" under 35 U.S.C. § 271(a), its most detailed pronouncement on the subject is its statement in Roche Products, 733 F.2d at 861:

> Because Congress has never defined use, its meaning has become a matter of judicial interpretation. Although few cases discuss the question of whether a particular use constitutes an infringing use of a patented invention, they nevertheless convincingly lead to the conclusion that the word "use" in section 271(a) has never been taken to its utmost possible scope.

In support of this statement the Federal Circuit referred specifically to the case of Pitcarin v. United States, 547 F.2d 1106 (Ct. Cl. 1976), cert. denied, 434 U.S. 1051 in holding:

> Tests, demonstrations, and experiments *** [which] are in keeping with the legitimate business of the *** [alleged infringer]" are

> infringements for which [e]xperimental use is not a defense (citations omitted).

The extensive breadth of use has also been previously embraced by this Court in the decision of Roberts v. Ryer, 91 U.S. 150 (1875). There the Court held that an inventor "is entitled to the benefit of all the uses to which" a patented invention can be put. Roberts, 91 U.S. at 157.

Likewise the most recent pronouncement of this Court in Markman v. Westview Instruments, Inc., ____ U.S. ____, 116 S.Ct 1384, 1387 (1996) mirrors the Roberts, and Roche Products holdings, in stating:

> [L]ike their modern counterparts, [prior patent acts] granted inventors "the right to exclude others from making, using, offering for sale, selling, or importing the patented invention (citations omitted).

In fact the Ninth Circuit Court of Appeals has also previously given the term "use" a broad meaning. See, Neff Instrument Corp. v. Cohu Electronics, Inc., 269 F.2d 668, 674 (9th Cir. 1959). There the court in holding that demonstrations of an alleged infringing device at trade shows and numerous trade advertisements were sufficient grounds for a patent infringement action stated:

> [E]ven the threat to use patented subjected matter may give right to a cause of action. If this be so, how can we view appellee's sales convention appeals and its numerous paid

> advertisements (without the slightest indication of any attempt being made to restrict sales to governmental agencies or to private companies with governmental contracts) as other than a threat to manufacture and sell infringing machines?

In the present case, the Court of Appeals in holding that "as a matter of law patent infringement cannot occur in the course of an insured's advertising activities" stated:

> The gravamen of the patent infringement claim is the use alone. See, e.g. Iolab [Corp. v. Seabord Surety Co., 15 F.3d 1500, (9th Cir. 1994)] at 1506 ("a patent is infringed by making, using, or selling a patented invention, not by advertising it"); Everest [and Jennings, Inc. v. American Motorists, Ins. Co.], 23 F.3d [226, (9th Cir. 1994)] at 229 ("the statutory definition of patent infringement [under 35 U.S.C. § 271(a)] refers only to the making, using or selling of a product") (emphasis in original) [App. A, p. A-10].

Petitioners submit that the holding in the present case is in direct conflict with both the Congressional intent in enacting Title 35, Section 271(a) and the prior Supreme Court and Federal Circuit judicial interpretation of what constitutes "use" under the patent statute.

Furthermore, in applying the above case rationale to the present petition, this Court should take judicial notice that it is common knowledge that "advertising"[3] is an important medium of obtaining business. Therefore, "advertising" a patented device becomes at some point a substantial source of business and should not be treated as an exception to the general rule that the "use" of a patented device is forbidden.

Likewise in the present situation, petitioners submit that the Court of Appeals should not have treated "advertising" as being an insufficient act to support a claim for patent infringement within the meaning of 35 U.S.C. § 271(a). Thus, the granting of petitioner's writ is proper.

III.

Under California Law A "Duty To Defend" Attaches To Potential Claims Under The Lanham Act And Patent Act.

It is well established in California law that an insurer's duty to defend its insured is extremely broad. The insured need only show a "bare potential or possibility" that a claim would be covered by an insurance policy to trigger the duty to defend. Montrose Chemical Corp. of California v. Superior Court, 6 Cal. 4th 287, 300 (1993); see also Gray v. Zurich Insurance Co., 65 Cal. 2d 263 (1966);

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[3] According to Webster's Third New International Dictionary, unabridged (1986), "advertising" is the action of calling something (as a commodity for sale, a service offered or desired) to the attention of the public, especially by means of printed or broadcast announcements".

Horace Mann Insurance Co. v. Barbara B., 4 Cal. 4th 1076 (1993).

As the California Supreme Court has explained, "[i]mposition of an immediate duty to defend is necessary to afford the insured what it is entitled to: the full protection of a defense in its behalf" Montrose, 6 Cal. 4th at 295 (citation omitted).

As a result of the insured's reasonable expectation of a defense for all claims that raised a "potential" of liability under a policy, the California Supreme Court has allocated each party's burden of proof accordingly in a duty to defend case in holding:

> [T]he insured must prove the existence of a potential for coverage, while the insurer must establish the absence of any such potential. In other words, the insured need only show that the underlying claim may fall within the policy coverage; the insurer must prove it cannot. Montrose, 6 Cal. 4th at 300 (emphasis in original).

In analyzing the possibility of coverage under an insurance policy, the court must look to the allegations in the complaint as well as to any other facts from any other facts from any other sources that were available to the insured. Gray, 65 Cal. 2d at 176-177.

Moreover, as set forth in Horace Mann, 4

Cal. 4th at 1181 any doubts as to whether the facts give rise to a duty to defend are resolved in the insured's favor. See also California Civil Code sections 1636, 1644, 1649 and 1654.

To determine whether respondent owed a duty to defend petitioners with respect to the underlying actions, the following three elements must be satisfied: (1) petitioners must have been engaged in "advertising activity" during the policy period when the alleged "advertising injury" occurred; (2) Reddi-Made's allegations must have raised a "potential" for liability under one of the covered offenses; and (3) there must have been a causal connection between the alleged injury and the "advertising activity". See New Hampshire Ins. Co. v. R. L. Chaides Construction Co., 847 F.Supp. 1452, 1455 (N.D. Cal. 1994) and Sentex Systems v. Hartford Accident and Indemnity Co., 882 F.Supp. 930, 940-45 (C.D. Cal. 1995), aff'd. ___ F.3d ___, WL 467048 (9th Cir. (Cal.))[4].

As set forth in the decision of the district court there was no dispute that Reddi-Made's alleged injuries occurred during the time respondent's policies issued to petitioners were in effect. Furthermore, the record on appeal substantiates a finding that petitioners were engaged in "advertising activity" and that Reddi-Made's allegations raised a "potential" for liability under respondent's insurance

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[4] The Ninth Circuit decision in Sentex appears to contradict the Court of Appeals' prior holding in the Simply Fresh case as it relates to the "potential" for liability both before and after the amended opinion in the latter case. This inconsistency is further amplified by the Ninth Circuit's prior holding in deleted footnote two that the underlying actions in both Sentex and Simply Fresh had "striking factual similarity".

policies.

Finally, petitioners also provided substantial evidence in the record on appeal that their in-house and trade show presentations were at a minimum possibly advertising injury. This advertising activity clearly establishes a sufficient causal connection between Reddi-Made's alleged injuries and petitioners' advertising activities.

In applying the above test to the instant case, it is abundantly clear from both the record on appeal and prior Federal and State decisional law as set forth above that petitioners provided ample evidence of a possibility of coverage under the respondent's policies for "advertising injuries"[5]. Under these circumstances respondent owed petitioners a duty to defend. Thus, petitioners submit that the petition for writ of certiorari should be granted.

CONCLUSION

For the foregoing reasons, petitioners respectfully request that this Court grant the petition for certiorari herein in order to resolve the intention of Congress as set forth in both the Patent and Lanham Act as to what constitutes acts of patent infringement and violations of the Lanham Act and the intention of the California Supreme

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[5] See John Deere Ins. Co. v. Shamrock Ind. Inc., 696 F. Supp. 434, 440 (D. Minn. 1988), aff'd. 920 F.2d 413 (8th Cir. 1991) [One letter by the Insured to a single customer soliciting the sale of a product, combined with one product demonstration to customers, was sufficient "advertising activity" to trigger coverage under the policy].

Court as to what constitutes "advertising injury" under an insurance contract.

Respectfully submitted,
LAW OFFICES OF HUEBNER & ROSA

HARLAN P. HUEBNER
EDOUARD V. ROSA, Counsel of Record
Attorneys for Petitioners.

APPENDICES

APPENDICES.

Appendix A. Memorandum from the Court of Appeals for the Ninth Circuit, numbered A-2 thru A-11.

Appendix B. Order from District Court, numbered B-12 thru B-25.

Appendix C. Order of the Court of Appeals for the Ninth Circuit May 28, 1996, numbered C-26.

Appendix D. Judgment of the Court of Appeals for the Ninth Circuit May 30, 1996, numbered D-27.

APPENDIX A.

Memorandum from the Court of Appeals for the Ninth Circuit

In the United States Court of Appeals, For the Ninth Circuit.

No. 94-56061, Simply Fresh Fruit, Inc. & P&C Services, Inc., Plaintiffs-Appellants, v. The Continental Insurance Company, Defendant-Appellee.

Appeal from the United States District Court for the Central District of California Hon. Lourdes G. Baird, District Judge, Presiding D.C. No. CV 93-6136-LGB, CV-93-6137-LGB.

Argued and submitted February 9, 1996, Pasadena, California.

Before Poole, Wiggins and Rymer, Circuit Judges.

Simply Fresh Fruit, Inc. and P & C Services, Inc. (collectively "Appellants") appeal the district court's grant of summary judgment in favor of their insurer, Continental Insurance Company, on their complaints for breaches of contract and the implied covenant of good faith and fair dealing. The district court found that Continental did not have a duty to defend Simply Fresh and P & C in two earlier actions brought by a third-party for misappropriation of trade secrets and patent infringement. Applying California law, the district court held that the

underlying actions were not covered under the "advertising injury" provision of the appellants' insurance policies. We affirm.

I.

Simply Fresh is in the business of processing and selling fresh fruit and fruit segments for use in salads and similar products. At the time the lawsuits at issue here arose, Simply Fresh had engaged the services of P & C as its primary processing facility for its fruit products. Simply Fresh and P & C held separate insurance contracts with Continental whereby the insurer agreed to defend and indemnify them for injuries suffered as a result of their business advertising activities.

Under the policy terms, coverage extended to "advertising injury" only if caused by an offense committed: (1) in the "coverage territory" during the policy period; and (2) in the course of advertising their goods, products or services. Further, for purposes of coverage, the relevant provisions defined "advertising injury" to include any "misappropriation of advertising ideas or style of doing business."

During the time the policies were in effect, one of Simply Fresh's competitors, Reddi-made Foods Company, Inc. ("Reddi-Made"), filed three lawsuits (collectively "the underlying actions") against Simply Fresh and P & C. The first action was filed in California state court and contained allegations of: (1) misappropriation of trade secrets, (2) breach of contract, (3) violation of the Uniform Trade Secrets Act, and (4) intentional interference with economic advantage. The second and third actions

were filed in federal district court and, once consolidated, alleged claims for patent infringement, contributory infringement and inducing infringement.

The gravamen of Reddi-Made's state court action was that Simply Fresh and P & C had misappropriated its secret automated process for slicing fruit. The allegations underlying this complaint were that a former mechanic for Reddi-Made, while still employed by Reddi-Made, began to build an identical fruit cutting system and production line for Simply Fresh. Subsequently, Simply Fresh hired another ex-employee of Reddi-Made's, who allegedly solicited a third Reddi-Made employee to steal various parts from the processing system. At all times during these events, the Reddi-Made employees were parties to confidentiality agreements. Reddi-Made's complaint alleged that as a result of this misappropriation of its trade secrets, Simply Fresh was able to significantly cut its production costs and effectively destroy Reddi-Made's economic advantage.

In the federal actions, Reddi-Made alleged that Simply Fresh and P & C infringed its patents in the fruit-cutting device and processes by using them in their manufacturing operations. Further, Reddi-Made alleged that Simply Fresh had induced and contributed to P & C's infringement of its patented cutting devices and operating processes. Although not included in the allegations in Reddi-Made's complaints, appellants admit that they would on occasion give prospective and current customers tours of their newly automated processing facilities in order to highlight the improved quality of their fruit products.

Simply Fresh and P & C tendered the defense of both the federal and state actions to Continental. Continental refused the tendered defenses and denied coverage. Subsequently, Reddi-Made and the appellants settled the underlying actions, which were dismissed with prejudice. This diversity action pursuant to 28 U.S.C. § 1332 between the insurer and the appellants followed.

On April 18, 1994, Continental filed a motion for summary judgment or partial summary judgment. Simply Fresh and P & C filed and opposition on June 6, 1994, and subsequently filed cross-motions for summary judgment on June 16, 1994. All the motions were scheduled to be heard on July 11, 1994; however, the motions were removed from the calendar and taken under submission by the district court prior to the scheduled hearing date.

On June 28, 1994, the district court granted Continental's motion for summary judgment, and found that the summary judgment in favor of Continental rendered the cross-motions moot. This timely appeal followed, and we have jurisdiction pursuant to 28 U.S.C. § 1291. We affirm.

I.

We review a district court's grant of summary judgment de novo. Jesinger v. Nevada Federal Credit Union, 24 F.3d 1127, 1130 (9th Cir. 1994). Our task is to determine, viewing the evidence in the light most favorable to the nonmoving party, whether there are any genuine issues of material fact and whether the district court correctly applied the relevant substantive law. Id.

Relying on the express policy language and the undisputed fact that the policies were in effect at all times relevant to this litigation, the district court found that, under California law, Continental had no duty to defend either the state trade secret action or the federal patent claim. The district court based its conclusion on the California Supreme Court's interpretation of the scope of "advertising injury" coverage expressed in Bank of the West v. Superior Court, 2 Cal. 4th 1254 (1992).

In Bank of the West, the California Supreme Court held that any "'advertising injury' must have a causal connection with the insured's 'advertising activities' before there can be coverage." 2 Cal. 4th at 1277. We address the district court's application of Bank of the West to each of the underlying actions in turn. We note preliminarily, however, that we agree with the district court's conclusion that under the clear language of the policies, coverage is provided for "'advertising injury' only if it was committed by Simply/P & C [sic] in the course of advertising their goods, products or services." In other words, any of the policy's enumerated advertising in order to satisfy Bank of the West's nexus requirement. See Bank of the West, 2 Cal. 4th at 1265 (a "court must interpret the language in context, with regard to its intended function in the policy.").

A. The State Misappropriation of Trade Secrets Claims

We note from the outset that the duty to defend is broad in California. See Gray v. Zurich Ins. Co., 65 Cal. 2d 263, 276 (1966) ("courts do not examine only the pleaded word but the potential liability created by the

suit."). However, the seminal Gray case added the caveat that "the insurer need not defend if the third party complaint can by no conceivable theory raise a single issue which could bring it within the policy coverage." Id. at 275 n. 15.

Simply Fresh and P & C assert that Reddi-Made's state law misappropriation of trade secrets claims alleged facts that could potentially give rise to claims for trade dress infringement, false designation of origin in violation of the Lanham Act, and common law unfair competition.[1] Further, they argue, any of these potential claims could reasonably fall within the "misappropriation of style of doing business" language of the policy, thus triggering Continental's duty to defend.

Even if we accept the appellants' argument, or recent decision in Microtec Research Inc., et al. v. Nationwide Mutual Ins. Co., et al., 40 F.3d 968 (9th Cir. 1994), would compel us to affirm the district court's finding that the allegations in the trade secret action did not arise in the course of Simply Fresh's advertising activities. The allegations in the underlying dispute in Microtec were virtually identical to those asserted by Reddi-Made. Id. at 970 (complaint included claims for inter alia, breach of contract, misappropriation of trade secrets, intentional interference with prospective economic advantage).

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[1] Indeed, the appellants assert that when the defenses were tendered to Continental, Reddi-Made could at any time have amended its complaint to include such claims. As we discuss Infra, however, under our decision in Microtec, even if these specific causes of actions could have been added, no potential coverage would exist under the advertising injury clause.

Although the insured in Microtec allegedly "passed off," or advertised, its competitor's intellectual property as its own, we noted that "[t]he complaint conspicuously and carefully omit[ted] to allege any wrongdoing with respect to [Microtec's] advertisements." Id. at 971 ("If Microtec had been able to establish that it faced potential liability for those advertisements, it might have arguably had a claim against its insurers under Gray [citations and internal quotations omitted] . . . .[however] there was no potential liability based on these . . . .advertisements, because Green Hills elected not to make that claim."). As we went on to note in Microtec, the "harm . . . . is allegedly caused by misappropriation of the [trade secret], not by the advertising itself." Id.

Appellants produced no evidence on summary judgment that Reddi-Made had suffered damages because of their advertising in order to prove the elements of any such claim. Thus, the appellants' argument utterly fails to address the correct causation requirement under the language of the policy and California law.[2]

---

[2] The appellants draw our attention to the recent case of Sentex Systems v. Hartford Accident and Indemnity Co., 882 F.Supp. 930 (C.D. Cal. 1995), which addressed a similar insurance coverage dispute involving an underlying action with striking factual similarity to Reddi-Made's state court action. The Sentex court held that the misappropriation of a competitor's trade secret by a former employee for use in the promotion of the insured's products raised a potential for liability under the covered offense of "misappropriation of advertising ideas or style of doing business." Id. at 944. We do not find the Sentex court's reasoning persuasive for two reasons. First, it disregards our conclusion in Microtec that "the injury for which coverage is sought must

B. The Federal Patent Infringement Claims

The appellants argue that the Bank of the West causal nexus requirement is satisfied here because their alleged use of Reddi-Made's patented devices and processes occurred in concert with the advertising and promotion of their fruit products. This argument is flawed for two reasons.

First, we have previously held that, as a matter of law, patent infringement cannot occur in the course of an insured's advertising activities. See, e.g., Iolab Corp. v. Seaboard Surety Co., 15 F.3d 1500, 1505 (9th Cir. 1994) (holding that infringement claim based on manufacture and sale of patented lens did not arise out of the insured's advertising activities under Bank of the West); Everest and Jennings, Inc. v. American Motorists Ins. Co., 23 F.3d 226, 229 (9th Cir. 1994) (drawing same conclusion based on policy language identical to that used in the case at bar); see also New Hampshire Ins. Co. v. R. L.Chaides Construction Co., 847 F.Supp. 1452, 1456-57 (N.D. Cal. 1994) (holding

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be caused by the advertising itself." See Microtec, 40 F. 3d at 971. In Sentex as here, the misappropriation of trade secrets occurred prior to any advertisement of products or services. Simply stated, the advertising did not cause the misappropriation. Second, the Sentex court relies heavily on case law from another federal district which, as noted by the California Supreme Court, did not resolve the issue of the causal connection between "advertising injury" and "advertising activities." See Bank of the West, 2 Cal. 4th at 1275 (discussing John Deere Ins. Co. v. Shamrock Industries, Inc., 696 F. Supp. 434, 440 (D.Minn. 1988), aff'd 920 F.2d 413 (8th Cir. 1991)). Now that the issue has been conclusively resolved by the California Supreme Court, that resolution must control.

that patent infringement cannot be committed in the course of advertising activities).

Here, Reddi-Made's federal claims for direct, contributory and inducing infringement all accrued when Simply Fresh and P & C allegedly used its patented devices and processes. This injury has no causal connection to any advertising activities as a matter of law because it could have occurred independent and irrespective of any advertising by the appellants. That Simply Fresh exploited its alleged use of the patented processes in conjunction with its product promotion activities is immaterial. The gravamen of the patent infringement claim is the use alone. See, e.g., Iolab, 15 F.3d at 1506 ("a patent is infringed by making, using, or selling a patented invention, not by advertising it"); Everest, 23 F.3d at 229 ("the statutory definition of patent infringement [under 35 U.S.C. § 271(a)] refers only to the making, using or selling of a product").

Second, the appellants' argument would lead this court to a finding that when the alleged infringement (e.g. use) of a patented process constitutes a form of advertisement, the causal nexus of Bank of the West is satisfied. As such, they argue, and insurer cannot avoid its contractual duty to defend.

However, this argument ignores the plain language of the policy. Appellants maintain, in effect, that because they exposed their alleged infringement of Reddi-Made's patented processes through their product promotion, their conduct falls within the coverage of Continental's policy. As noted, however, under the policy, the advertising

activities must cause the injury--not merely expose it. Accord Iolab, 15 F.3d at 1507 (noting that insured failed to show that patent holder's loss was caused by its advertising, rather than its infringement); Everest, 23 F.3d at 229 (noting that patentee's claim never asserted that infringement occurred because of insured's advertising); Microtec, 40 F.3d at 971 ("It is now the clearly established law in California . . . . that the injury for which coverage is sought must be caused by the advertising itself."). We therefore agree with the district court that the appellants' advertising activities did not cause the injuries alleged in Reddi-Made's federal patent infringement claims.

II.

Based on the foregoing discussion, we hold that Continental had not duty to defend Simply Fresh and P & C in Reddi-Made's state trade secret or federal patent infringement suits under the advertising injury provisions of their insurance policies. The judgment of the district court is **AFFIRMED.**

APPENDIX B.

Order from District Court.

United States District Court Central District of California.

Simply Fresh Fruit, Plaintiff, v. The Continental Insurance Company, Defendant., Case No. CV-93-6136 (Consolidated), P & C Services, Inc., Plaintiff, v. The Continental Insurance Company, Defendant., Case No. CV-93-6137 (Consolidated).

Defendant, the Continental Insurance Company's ("Continental") motions for summary judgment as to the complaints in Simply Fresh Fruit v. The Continental Insurance Company, 93-6136 LGB, and P & C Services, Inc. v. The Continental Insurance Company, 93-617 LGB[1], and Plaintiffs' Simply Fresh Fruit ("Simply") and P & C Services, Inc.. ("P & C")[2] (collectively "Simply/P & C") cross-motions for summary judgment that were scheduled to be heard on July 11, 1994 were taken off calendar and under submission by this Court. After considering the moving and opposing papers, and all other matters presented, this Court GRANTS Continental's

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[1] Simply Fresh Fruit v. The Continental Insurance Company, 9 3-6136 LGB, and P & C Services, Inc. v. the Continental Insurance Company, 93-6137 LGB were consolidated on May 13, 1994,

[2] Simply contracted with P & C to cut fruit for Simply's product line.

motions for summary judgment as to both complaints.[3]

BACKGROUND:

On October 12, 1993, Plaintiffs filed the two complaints in this action which contain the following causes of action:

1. Breach of contract;

2. Breach of implied covenant of good faith and fair dealing; and

3. Breach of fiduciary duty.

On December 6, 1993, the Court dismissed the third cause of action in the complaints. See December 6, 1993 orders. Moreover, on February 4, 1994 this Court dismissed Defendant's counterclaim for declaratory relief in both actions.

the Uncontroverted facts in this action are as follows:

Simply/P & C entered into insurance contracts with Defendant, the Continental Insurance Company ("Continental") pursuant to which Defendant agreed to defend and indemnify Plaintiffs for all advertising injuries

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[3] Based upon this Court granting Defendant's motions for summary judgment, Plaintiffs' cross-motions are MOOT.

suffered by Plaintiffs.[4]

The policies provided coverage for "advertising injury," which is defined under the policies as:

[I]njury arising out of one or more of the following offenses:

> a. Oral or written publication or material that slanders or libels a person or organization or disparages a person's or organization's goods, products or services;
>
> b. Oral or written publication of material that violates a person's right of privacy;
>
> c. Misappropriation of advertising ideas or style of doing business; or
>
> d. Infringement of copyright, title or slogan.

Additionally, the policy provides that:

[t]his insurance applies to 'advertising injury' only if caused by an offense committed:

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[4] The policies, nos. 93 CBPO6078289-92 and no. 93 CBPO6078289-94, have been renewed and were in effect during all times that are relevant to this litigation. See exhibits A & B attached to Ludwigs' declarations.

> (1) in the 'coverage territory' during the policy period; and
>
> (2) In the course of advertising your goods, products or services.

Ludwig decl., exhibit A, pg. 10.

On October 31, 1991 an action was filed against Simply in state court (the "trade secret action").[5] On June 5, 1992, and action was filed against Simply in Federal Court,[6] and on May 7, 1993, another action was filed against Simply in this Court (the "patent actions").[7] Simply/P & C tendered their defense in the trade secret and

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[5] Reddi-Made Foods, Inc. v. Simply Fresh Fruit, Inc., et. al., Los Angeles County Superior Court, Case No. BC041197. The complaint contained the following causes of action:

1. Breach of contract;
2. Unfair competition in violation of the Uniform Trade Secrets Act; and
3. Intentional interference with economic advantage.

Wilkins' decl., exhibit 1.

[6] Thomas Lin v. Simply Fresh Fruit, Inc., 92-3422 LGB. This complaint contained one cause of action for patent infringement. Wilkins' decl. exhibit 2.

[7] Thomas Lin v. Simply Fresh Fruit, Inc., 93-2676 LGB. This complaint contained causes of action for:

1. Patent infringement;
2. Contributory infringement; and
3. Inducing infringement.

Wilkins' decl. exhibit 3.

patent actions to Defendant, however, Defendant refused to provide Plaintiffs' with defenses in these actions. Defendant claimed that the causes of actions in these complaints were outside the scope of the insurance contracts between the parties.

Any conclusion of law deemed to be a finding of fact is hereby incorporated into these findings of facts.

Based upon the above uncontroverted facts, this court makes the following CONCLUSIONS OF LAW.

This Court has jurisdiction over this action based upon diversity, 28 U.S.C. §1332.

A party, moving for summary judgment, may carry its initial burden by pointing out to the district court that there is an absence of evidence to support an element of the non-moving party's case. Celotex Corp. v. Catrett, 477 U.S. 317 (1986). The non-movant, then must set forth specific facts showing that there remains a genuine issue for trial. A "genuine issue" of material fact exist only when the non-moving party makes a sufficient showing to establish all essential elements to that party's case, and on which that party would bear the burden of proof at trial. Id.; Matsushita Elec. Indus. Co. v. Zenith Radio Corp., 475 U.S. 574 (1986).

ANALYSIS:

A. Defendant's motion

1. Duty to defend

Continental asserts that this Court must grant its motion for summary judgment as to the causes of action in both complaints because it did not have a duty to defend Simply/P & C in the underlying actions.

The law is clear in California; and insurer is obligated to defend a suit that seeks damages which potentially are within the coverage of its policy. Gray v. Zurich Ins., Co., 65 Cal. 2d 263 (1988); CNA Casualty of Cal. v. Seaboard Surety Co., 176 Cal. App. 3d 598, 605 (1986); Saylin v. Cal. Ins. Guarantee Ass'n, 179 Cal. App. 3d 256, 263 (1986).

However, the duty to defend is not absolute; it is determined by the nature and kind of risks that are covered by the policy. State Farm & Casualty Co. v. Drasin, 152 Cal. App. 3d 864, 869 (1984). The insurer does not need to defend if the allegations in the complaint do not raise a single issue which could bring the action within the policy's coverage. Gray, 65 Cal. 2d 263.

It is undisputed that the "advertising injury" provision in the policies is the only applicable section to the actions that are currently before this court.

As indicated supra, the policies provide

coverage for "advertising injury" only if it was committed by Simply/P & C in the course of advertising their goods, products or services. Ludwig decl., exhibit A, pg. 10.

Thus, to rule on Defendant's motions, this Court must determine whether the alleged injury to the underlying Plaintiffs arose in the course of Simply/P & C's advertising their goods, products and/or services.

In Bank of the West v. Superior Ct., 2 Cal. 4th 1254, 1273 (1992), the court analyzed the type of injury that was required for a claim to fall within the advertising injury provision of an insurance policy. The applicable provision of the policy that was at issue in Bank of the West indicated that coverage existed only if the conduct occurred "in the course of the . . . insured's advertising activities." Id., 2 Cal. 4th at 1273. Thus, the policies that are at issue in this action are virtually identical to the one that was before the Court in Bank of the West. The Bank of the West Court stated that for a cause of action to fall within the advertising injury provision of an insurance policy, it must have a causal connection with the insured's "advertising activities." Id., 2 Cal. 4th at 1276. The Court noted that its holding was based upon the majority rule and on the common sense interpretation of this provision of the policy.

Further, the Bank of the West Court indicated that an objectively reasonable insured would not and should not expect that and "advertising injury" provision would cover all injuries that related to the insured's business. The Bank of the West Court noted that for an insured to obtain this type of broad coverage, the insured would be required

to purchase several different forms of insurance. Id., 2 Cal. 4th at 1277. Accordingly, the Bank of the West Court held that for an insured to be covered under an advertising injury provision in an insurance policy, the alleged injury must have a causal connection with the insured's actual advertising activities. Id., 2 Cal. 4th at 1277.[8]

a. Trade Secret Action

The trade secret action, which was based upon Simply's alleged misappropriation of the underlying Plaintiff's mechanical device, used for cutting fruit, contained the following causes of action:

1. Breach of contract;

2. Unfair competition; and

3. Intentional interference with contractual relations.

The gravamen of this action was that Simply induced employees of Reddi-Made to steal certain trade

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[8] Plaintiffs argue that this section of the Bank of the West decision was dicta, and is thus not controlling. However, Plaintiffs have failed to read the Bank of the West decision carefully because the Court stated that its analysis regarding the advertising injury issue was an alternative basis for denying coverage to the plaintiff in that action. Thus, Plaintiffs' position is not persuasive.

secrets,[9] which Simply allegedly used to duplicate Reddi-Made's production line.

Plaintiffs assert that allegations in the trade secret action were governed by the advertising injury provision of the policy, because Plaintiffs assert that Thomas Lin, one of the underlying Plaintiffs, was "advertising" the smooth edges of his fruit based upon the pictures in his brochures. Additionally, Plaintiffs assert that the visual appearance of the cut fruit in Lin's brochures disclosed that his cutting device was being used to manufacture the product. Exhibits 11-14 attached to Rosa's decl.

Additionally, Plaintiffs assert that their advertising brochures, which depicted their cut fruit, and their product displays that were used at trade shows "advertised" the smooth cut edges of their products. Exhibits 1 & 2 attached to Strongin's decl. Accordingly, Plaintiffs assert that it is clear that there was a causal connection between the allegations in the trade secret action and Plaintiffs' advertising activities which is sufficient for this Court to find that there was a potential for coverage under the policy.

These are Plaintiff's only arguments that the allegations in the trade secret action, which contained causes

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[9] Specifically, the complaint indicated that Simply induced Reddi-Made employees to steal trade secrets relating Reddi-Made's entire production line, including the layout, conveyer-bet configurations, washing tanks, and cutting devices, and induced those employees to leave Reddi-Made's employment for jobs at Simply.

of action for breach of contract, unfair competition, and intentional interference with contractual relations, arose out of Plaintiffs' advertising their goods, products or services. This Court finds that the allegations in the trade secret action did not arise in the Court of Simply/P & C's advertising its goods, products or services. Bank of the West, 2 Cal. 4th at 1276.

Although an insurer is obligated to defend a suit that seeks damages which potentially fall within the coverage of its policy, an insurer does not have to defend an action if the facts, as in this case, do not raise a single issue which could bring the action within the policy's coverage. Gray, 65 Cal. 2d at 275; CNA Casualty of Cal., 176 App. 3d 605; Saylin, 179 Cal. App. 3d at 263; State Farm Fire & Casualty Co., 152 Cal. App. 3d at 869. Accordingly, Continental did not have a duty to defend Plaintiffs in the trade secret action because the allegations in that complaint did not raise a single issue which could bring the action within the advertising injury provision of the policy.

b. Patent Infringement Actions

The patent infringement actions were based upon the underlying Plaintiff's assertions that Simply/P & C infringed upon the underlying Plaintiff's patented mechanical fruit cutting device.

The law in the Ninth Circuit and California is clear, causes of action for any type of patent infringement do not occur "in the course of" an insured's advertising so as to provide coverage for Simply/P & C under the policies. Aetna Cas. & Sur. Co. v. Superior Court, 19 Cal. App. 4th 320, 328 (1993)[10]; Iolab Corp. v. Seaboard Surety Co., 15 F.3d 1500 (9th Cir 1994).[11]

Thus, according to established case law, there

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[10] Patent infringement cannot be committed in the course of advertising activities. The patentee is not injured because a product incorporating its invention is advertised, but because the infringer, without consent, used or sold a product utilizing a protected invention. Accordingly, patent infringement [and the related causes of action for inducing infringement and contributory infringement] cannot be covered under the [advertising injury provisions of the] policies.

Id., 19 Cal. App. 4th at 328.

[11] In Iolab, the Ninth Circuit held that the insured's advertising activities and the underlying plaintiff's loss for patent infringement did not establish injury provision of the insurance policy. The Iolab Court held that "first, . . . Iolab would have to show its advertising caused the patent infringement, not the liability. Second, Iolab fails to show that the [underlying Plaintiff's loss] was caused by its advertising rather than its infringement of [the] patent." Id.,

was no potential for coverage in the patent actions under the "advertising injury" provision in the policies. Accordingly, Continental did not have a duty to defend Plaintiffs in the patent actions because the allegations in those complaints did not raise a singly issue which could bring the actions within the advertising injury provision of the policy.

2. Analysis of causes of action in the complaints

1. Breach of Contract

The law is clear in California, if an insurance policy does not provide coverage for a loss, the insurer has no contractual obligation under the policy. Warner v. Fire Ins. Exch., 230 Cal. App. 3d 1029 (1991); Horseman's Benevolent & Protective Assn., Inc. v. Insurance Co., of North Am., 222 Cal. App. 3d 816 (1990); Clemco Indus. v. Commercial Union Ins. Co., 665 F.Supp. 816, 830 (N. D. Cal. 1987); aff'd 848 F.2d 1242 (9th Cir. 1988).

Thus, this Court GRANTS Defendant's motion for summary judgment as to the first cause of action in the complaints for breach of contract because Plaintiffs, the party who bears the burden of proof, have failed to provide this Court with any admissible evidence to establish that there is a genuine issue of material fact remaining for trial. Celotex, 477 U.S. at 322-23; Valinsky, 988 F.2d 126; Careau & Co., 222 Cal. App. 3d at 1388.

2. Breach of the Covenant of Good Faith and Fair Dealing

The law in California is clear; when there is no potential for coverage under an insurance policy, the insurer, as discussed supra, cannot be found liable for a breach of contract, and similarly, cannot be liable for a breach of the covenant of good faith and fair dealing. Warner, 230 Cal. App. 3d 1029; Horseman's Benevolent & Protective Assn., Inc., 222 Cal. App. 3d 816; Clemco Indus., 665 F.Supp. at 830.

Thus, this Court GRANTS Defendant's motion for summary judgment as to the second cause of action in the complaints for breach of the covenant of good faith and fair dealing. Plaintiffs, the party who bears the burden of proof, have failed to provide this Court with any admissible evidence to establish that there is a genuine issue of material fact remaining for trial. Seaman's Direct Buying Serv., 36 Cal. 3d 768; Egan, 24 Cal. 3d 809 (1979); Foley, 47 Cal. 3d 654; California Shoppers, Inc., 175 Cal. App. 3d at 54; Love, 221 Cal. App. 3d at 1151-52; Almon, 724 F.Supp. at 766; Hassard, Bonnington, Roger & Huber, 740 F.Supp. at 792; Henry, 217 Cal. App 3d at 1418-1419.

Any finding of fact deemed to be a conclusion of law is hereby incorporated into these conclusions of law.

B. Plaintiffs' cross-motion

Based upon the analysis supra, Plaintiff's cross-motion for summary judgment is MOOT.

/s/ Lourdes G. Baird
United States District Judge

Entered: June 28, 1994

APPENDIX C.

Order of the Court of Appeals
for the Ninth Circuit
May 28, 1996

Simply Fresh Fruit, Inc. & P & C Services, Inc., Plaintiffs-Appellants, v. The Continental Insurance Company, Defendant-Appellee., No. 94-56061, D.C. No. CV-93-6136-LGB (GHKx) Consolidated.

United States Court of Appeals, for the Ninth Circuit.

May 28, 1996, Before, Poole, Wiggins and Rymer, Circuit Judges.

The panel has unanimously voted to deny appellant's petition for rehearing. Judge Wiggins and Judge Rymer vote to reject the suggestion for rehearing en banc and Judge Poole so recommends.

The full court has been advised of the suggestion for rehearing en banc and no active judge has requested a vote on whether to rehear the matter en banc. See Fed. R. App. P. 35. Thus, the petition for rehearing is DENIED, and the suggestion for rehearing en banc is hereby REJECTED.

APPENDIX D.

Judgment of the Court of Appeals
for the Ninth Circuit
May 30, 1996

Simply Fresh Fruit, Inc. & P & C Services, Inc., Plaintiffs-Appellants, v. The Continental Insurance Company, Defendant-Appellee. No. 94-56061, CT/AG#: CV-93-06136-LGB.

United States Court of Appeals, for the Ninth Circuit.

APPEAL FROM the United States District Court for the Central District of California, Los Angeles.

THIS CAUSE came on to be heard on the Transcript of the Record from the United States District Court for the Central District of California, Los Angeles and was duly submitted.

ON CONSIDERATION WHEREOF, it is now here ordered and adjudged by this court, that the judgment of the said district court in this cause be, and hereby is AFFIRMED.

Filed and entered May 30, 1996.

(2)

Supreme Court, U.S.
FILED
OCT 7 1996
CLERK

No. 96-333

In The

Supreme Court of the United States

October Term, 1996

SIMPLY FRESH FRUIT, INC. & P&C SERVICES, INC.,

Petitioners,

v.

THE CONTINENTAL INSURANCE COMPANY,

Respondent.

On Petition For Writ Of Certiorari To The Court Of Appeals For The Ninth Circuit

BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI

JAMES H. WILKINS
McCORMICK, BARSTOW, SHEPPARD, WAYTE & CARRUTH
5 River Park Place East
Fresno, California 93729-8912
Telephone: (209) 433-1300

Attorneys for Respondent

COCKLE LAW BRIEF PRINTING CO., (800) 225-6964
OR CALL COLLECT (402) 342-2831

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REASONS FOR DENYING THE PETITION FOR WRIT OF CERTIORARI

There are no compelling reasons to grant the present writ. This case does not involve (1) a conflict of Appellate decisions; (2) an important question of federal law; or (3) an important question of law that conflicts with the decisions of this Court. (Sup. Ct. R. 10) Therefore, the petition should be denied.

The controversy in this matter involves the interpretation of an insurance policy, *under California law*. The Ninth Circuit's decision does not conflict with any decision of this court, or any other circuit court of appeals. The Ninth Circuit's decision does not raise an important federal question in a manner conflicting with a decision of another state court of last resort or of the United States Court of Appeal. The decision does not conflict with prior Supreme Court decisions or federal constitutional or statutory provisions relating to patent infringement or the Lanham Act.

ARGUMENT

1. The Decision Of The Ninth Circuit Does Not Conflict With The Decision Of Any Other Circuit Court Of Appeals In Holding That Patent Infringement Is Not Covered Under A Liability Insurance Policy.

The present matter involves the interpretation of general liability insurance policies, issued to a California insured by respondent Continental Insurance Company. It is undisputed that this interpretation is governed by California law. In order for coverage to apply under the

Continental policies, the allegations in the complaint must concern an injury arising out of an offense occurring "in the course of" the insured's advertising activities. (See App. A attached to Petition for Writ of Certiorari, p. A-3) The California Supreme Court has interpreted this language as limiting coverage to situations where the alleged covered injury is causally connected to the insureds' actual advertising activities. (*Bank of the West v. Superior Court*, 2 Cal.4th 1254 (1992))

Petitioners assert that allegations of patent infringement under 35 U.S.C. § 271(a) satisfy the "in the course of" requirement because "use" can be broadly defined to include advertising.[1] The Ninth Circuit rejected Petitioner's argument and held that as a matter of California insurance coverage law, patent infringement cannot occur in the course of advertising activities. (See App. A. attached to Petition for Writ of Certiorari, p. A-10) Petitioners argue that this holding is in direct conflict with prior Supreme Court and Federal Circuit decisions concerning what constitutes "use" under the patent statute, as well as the intent of the statute itself. However, petitioners misconstrue such authorities.

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[1] The applicable patent infringement statute, 35 U.S.C. § 271(a) for the purposes of this case provides:

> [W]hoever without authority makes, uses or sells any patent invention, within the United States during the term of the patent therefore, infringes the patent.

Although this statute has subsequently been amended effective January 1, 1996, the amendment is irrelevant for the purposes of construing coverage under the Continental policies as those policies were in effect prior to January 1, 1996.

As one court has stated, "the use of a patented product for the purpose of advertising defendant's product is not a[n] . . . act of infringement." *Intermedics, Inc. v. Ventritex, Inc.*, 775 F.Supp. 1269, 1285 (N.D. Cal. 1991), citing *Kaz Manufacturing Co., Inc. v. Cheseborough-Ponds, Inc.*, 317 F.2d 679 (2nd Cir. 1963). In *Intermedics*, plaintiffs sought to establish that the defendant's demonstrations of a patented implanted defibrillator at scientific trade shows would constitute acts of infringement. The court noted that many cases which found such activity to constitute infringement did so for the purpose of establishing proper venue under 28 U.S.C. Section 1400(b), which carries a necessarily lower standard of proof. *Intermedics*, 775 F.Supp at 1285. Moreover, in order to show infringement arising out of a demonstration of a patented product, the aggrieved party must also show "some other activity *culminating in a sale* of that device." *Id.*; emphasis in original. In *Intermedics*, the court found no evidence that the defendant sold any units of the infringing device; in fact, the defendant erected signs indicating that the device was not available for general commercial sale. Nor was there any evidence that the defendant solicited sales agreements arising out of its demonstrations. The court concluded: "The mere demonstration or display of an accused product, even in an obviously commercial atmosphere, does not constitute an infringing use under Section 271(a)." *Id.* at 1286.

Similarly, the court in *L.A. Gear, Inc. v. E.S. Originals, Inc.*, 859 F.Supp. 1294, 1298 (C.D. Cal. 1994) held that the defendant's observation, handling and inspection of allegedly infringing shoes in retail stores did not constitute patent infringement. The court held that "[a]s a

matter of law, merely observing an allegedly infringing device, demonstrating that device, or observing a demonstration of that device does not constitute a 'use' of that device." *Id.*

The *L.A. Gear* court directly addressed the fact that the term "use" has never been taken "to its utmost possible scope." *Id.*, quoting *Roche Products, Inc. v. Bolar Pharmaceutical Co.*, 733 F.2d 858, 861 (Fed. Cir. 1984), *cert. denied*, 469 U.S. 856 (1984). Citing the *Intermedics* case with approval, the court held that if demonstration or observation of the demonstration were held to be patent infringement, "[a] patentee could bring a patent infringement action based on 'use' against every individual who visited or happened to observe a demonstration or exhibit in a museum, store, or any other public place where an allegedly infringing product or process was displayed." *Id.* at 1298-1299.

In *Bradshaw v. Igloo Products Corp.*, 912 F.Supp. 1088, 1101 (N.D. Ill. 1996), the alleged infringer showed the patented cooler live or as a photograph in a large number of marketing presentations. The defendant actually sold non-infringing models, however. In finding no infringement of the patent, the court held: "[s]ince use of a patented product for promotional purposes is not itself a "use" violating § 271(a) and since there was no "sale" of the potentially infringing product, there is no violation of § 271(a)."

Petitioner's citation of *Neff Instrument Corp. v. Cohu Electronics, Inc.*, 269 F.2d 668, 674 (9th Cir. 1959) as an example of a broad interpretation of the term "use" is inapposite. The court took note of the alleged infringer's

solicitations for sales at product conventions as a perceived threat to " *'manufacture'* and *'sell'* infringing machines." *Id.*; emphasis added. Indeed, rather than "use," courts regard demonstrations using patented products as a possible "sale" of the product. See *Union Asbestos & Rubber Co. v. Evans Products Co.*, 328 F.2d 949, 952 (7th Cir. 1964) [" . . . demonstrations are proper proof of 'sale' and not proper proof of 'use' because in them the accused article was not used for the purpose for which it was intended. Its intended use was . . . not for demonstration to intended customers."]

Moreover, the *L.A. Gear* court quoted the *Intermedics* court's citation of *Union Asbestos & Rubber Co., supra,* for the proposition that the demonstration of a device to prove the occurrence of a "sale" is to be distinguished from using demonstration to prove a "use." As the *Intermedics* court stated, "[c]ommon sense suggests that demonstration activity should be considered as evidence of an infringing 'sale' and not as evidence of an infringing 'use.' " *Intermedics*, 775 F.Supp. at 1286 n.5, *quoted by L.A. Gear*, 859 F.Supp. at 1298, n.2.

Petitioner's citation of *Pitcarin v. United States*, 547 F.2d 1106, 1125 (Ct. Cl. 1976), *cert. denied*, 434 U.S. 1051 (1978), does not advance petitioner's argument. That case does not stand for the proposition that a "demonstration" is necessarily an infringing use. *Pitcarin* involved the alleged infringement of patents by the U.S. government relating to helicopter rotor structures and control systems. A phrase Petitioner omitted from its quotation clarifies that the "[t]ests, demonstrations, and experiments" are "*intended uses* of the infringing aircraft . . . " *Pitcarin*, 547 F.2d 1125; emphasis added.

In this case, the allegedly infringed product's intended use was to process fruit, not to demonstrate the product. See *Union Asbestos & Rubber Co.*, 328 F.2d at 952. Nor was there any commercial sales opportunity sought or taken with respect to the allegedly infringing product. Therefore, no patent infringement occurred. Thus, the demonstration of a patented product, without commercial sale of the product occurring as a result of the demonstration, does not constitute patent infringement.

Petitioner's plea to this Court to allow advertising to serve as a new basis for patent infringement is without legal foundation. "Only the unauthorized making, using or selling of a patented invention constitutes infringement." *New Hampshire Ins. Co. v. R.L. Chaides Constr. Co.*, 847 F.Supp. 1452, 1456 (N.D. Cal. 1994), *citing* 35 U.S.C. § 271(a). As demonstrated above, advertising does not constitute any of these offenses.

There is no disagreement among the circuits of the federal courts to which this Court need apply its power to resolve conflicts. Although the term "use" for purposes of patent infringement is undefined by statute, demonstrations by an alleged infringer making use of a patented product, which do not seek or result in sales of the product, do not constitute "use" under the patent infringement statute. Furthermore, if such a demonstration were to constitute patent infringement, the infringement would be the "sale" of the product, not its "use."

2. Even If Such A Conflict Existed, Which It Does Not, Patent Infringement Does Not Occur "In The Course Of" Advertising.

Numerous federal courts have addressed the issue of whether patent infringement occurs "in the course of" an insured's "advertising activities" for the purpose of determining the existence of coverage under general liability insurance policies. It is well settled that patent infringement, by definition, cannot occur in the course of advertising activities.

In 1965, the Seventh Circuit Court of Appeals held that the display of allegedly infringing irons in the alleged infringer's offices did not constitute an illegal "use" of the products. *Knapp-Monarch Co. v. Cass Co. Products Corp.*, 342 F.2d 622, 626 (7th Cir. 1965).

Similarly, the Second Circuit Court of Appeals, in a case in which the alleged infringer demonstrated his data-plotting device to government representatives of the Bureau of Ships, held that "mere advertising of a patented device is not itself an infringement." *Ling-Temco-Vought, Inc. v. Kollsman Instrument Corp.*, 372 F.2d 263, 269-270 (2nd Cir. 1967).

Another court has held that, although the alleged infringer apparently advertised for sale an infringing plow device, no sales were ever made. Accordingly, the court stated, "infringement involves either manufacture or use or sale and does not encompass advertising." *Merry Manufacturing Co. v. Burns Tool Company*, 206 F.Supp. 53, 62 (N.D. Ga. 1962), *aff'd*, 335 F.2d 239 (5th Cir. 1964).

More recently, the United States District Court for the Eastern District of Pennsylvania ruled on the applicability of advertising injury liability insurance to patent infringement. Noting that there must be a causal connection between the alleged injury and the insured's advertising activity, the court held that "[s]ince the gravamen of patent infringement is the unauthorized production, use or sale of a patented product and not its advertising, it could not arise out of or occur in the course of advertising activities." *Atlantic Mutual Ins. Co. v. Brotech Corp.*, 857 F.Supp. 423, 429 (E.D. Pa. 1994), *aff'd*, 60 F.3d 813 (3rd Cir. 1994). See also, *I.C.D. Industries, Inc. v. Federal Insurance Co.*, 879 F.Supp. 480, 485-486 (E.D. Pa. 1995).

The district courts and courts of appeal of the Ninth Circuit have, on numerous occasions, addressed the issue of whether patent infringement can occur in the course of advertising. In *National Union Fire Ins. Co. v. Siliconix Inc.*, 729 F.Supp. 77 (N.D. Cal. 1989), the court examined whether patent infringement, arguably covered by the enumerated offense of "piracy" of the advertising injury portion of the insurance policy, occurred in the course of advertising activities. The court noted that "the infringing act is the making, using, or selling of a patented invention, not the mere advertising of the invention." *Siliconix*, 729 F.Supp. at 80. Furthermore, the court cited *Ling-Temco-Vought* and *Merry Manufacturing Co.* for the proposition that "mere advertising, without more, cannot constitute actionable patent infringement." *Siliconix*, 729 F.Supp. at 79.

Similarly, *Iolab Corp. v. Seaboard Surety Co.*, 15 F.3d 1500, 1506 (9th Cir. 1994) [". . . patent infringement cannot reasonably be considered an act of piracy arising out

or committed in advertising"], *Everest & Jennings v. American Motorists Ins. Co.*, 23 F.3d 226, 229 (9th Cir. 1994) [facts alleging patent infringement "simply do not establish the necessary causal connection between the alleged infringement and E & J's advertising"], and *Intex Plastics Sales Co. v. United National Ins. Co.*, 23 F.3d 254, 256 (9th Cir. 1994) ["[b]ecause direct infringement involves a making, using, or selling of the patented invention, the infringement does not occur in the course of the insured's advertising activities"] all followed *Siliconix* in finding that patent infringement does not occur in the course of an insured's advertising activities. See also, *Microtec Research v. Nationwide Mutual Ins. Co.*, 40 F.3d 968, 971 (9th Cir. 1994); *Owens-Brockway Glass Container, Inc. v. International Ins. Co.*, 884 F.Supp. 363, 368 (E.D. Cal. 1995); *New Hampshire Ins. Co v. R.L. Chaides Constr. Co., Inc., supra*, 847 F.Supp. 1452, 1456, *citing Ling-Temco-Vought*, 372 F.2d 263.

In sum, therefore, there is clear, demonstrable agreement among the federal circuits that patent infringement cannot occur "in the course of" an insured's "advertising activities" for insurance coverage purposes. As such, the holding of the Ninth Circuit Court of Appeals in the present case that, "as a matter of law, patent infringement cannot occur in the course of an insured's advertising activities" (*Simply Fresh Fruit, Inc. v. Continental Ins. Co.*, 84 F.3d 1105, 1108 (9th Cir. 1996)), falls squarely within this well established rule.

3. Petitioner's Arguments Concerning Trade Dress Infringement And Allegations Of Violations Of The Lanham Act Are Irrelevant To This Action.

Petitioners argue that the Ninth Circuit's decision that there is no coverage for allegations of misappropriation of trade secrets is in direct contravention of prior supreme court and the mainstream trademark law as it applies to section 43(a) of the Lanham Act. However, because no allegations of violations of the Lanham Act are present in the underlying actions, petitioners arguments are irrelevant.[2]

California courts have consistently held that an insurer's duty to defend is not triggered by insured's creative far-fetched, speculative arguments. (*Bohannon v. Aetna Casualty and Surety Co.*, 166 Cal.App.3d 1172, 1177 (1985); *Walbrook Ins. Co. Ltd. v. Goshgarian and Goshgarian*, 726 F.Supp. 777, 780 (C.D. Cal. 1989).) For example, in *Hurley Construction Co. v. State Farm Fire & Casualty Co.*, 10 Cal.App.4th 533 (1992), the insured argued that coverage applied to an insurance fraud complaint filed against it since the action could potentially become one for property damage or bodily injury. In rejecting this speculative argument, the court reasoned:

> "The Fireman's Fund complaint, on its face, alleged no facts showing a potential for coverage. The extraneous 'facts' regarding potential liability *came from Hurley's counsel who speculated*

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[2] Furthermore, the issue of coverage for allegations of misappropriation of trade secrets in this case is a matter of California law. For this additional reason, the petition should be denied.

> *about how Fireman's Fund might amend its complaint at some future date.* Hurley, however, misconstrued the concept of potential liability' as defined by the policy. 'We look to the nature and kind of risk covered by the policy as a limitation upon the duty to defend . . . ' (Citations.)"
>
> Our Supreme Court, anticipating imaginative counsel and the likelihood of artful drafting, has indicated that a third party is not the arbiter of the policy's coverage. (Citations.) A corollary to this rule is that the insured may not speculate about unpled third party claims to manufacture coverage." (10 Cal.App.4th at 538; emphasis added.)

Similarly, in *Olympic Club v. Those Interested Underwriters at Lloyds London*, 991 F.2d 497 (9th Cir. 1993), the plaintiff had restricted its membership which resulted in a lawsuit being filed against it by the City of San Francisco for injunctive and declaratory relief. The club tendered its defense of these actions to its directors and officers' liability carrier, which denied the claim. Since the lawsuits did not allege wrongful acts of directors or officers, and because the policy only applied to such liability, the court held that coverage did not exist. In response to the Club's argument that the city could easily amend its complaint to allege wrongful acts by officers and directors, the court held that "mere speculation that the City will allege new facts in its suit against the Club cannot satisfy the Club's burden of proof in this case. (Citations.)" *Id.* at 503.

Likewise, in *Lassen Canyon Nursery v. Royal Ins. Co. of America*, 720 F.2d 1016, 1018 (9th Cir. 1983), the court held

that there was no duty to defend the insured in an antitrust action under a policy insuring against "property damage" where both the underlying complaint and discovery indicated the underlying plaintiff sought purely economic losses which were not covered under the policy. The court found that the facts before it were not sufficient to conclude that there was a potential claim for the diminution in the value of fixed assets, even though the insured's counsel argued that such losses could be recovered in an antitrust action.

Finally, in *National Union Fire Ins. Co. v. Siliconix, Inc.*, 726 F.Supp. 264 (N.D. Cal. 1989), the court found that neither the underlying complaints nor the insured's declarations indicated that potentially covered claims would be adjudicated in the underlying patent action. The court held that:

> [A]lthough Siliconix's counsel in the patent suit may assert that potentially covered claims are suggested by the damages asserted in [the] complaint, his self-serving legal opinion hardly constitutes a "fact" known to National Union which, under *Gray*, gives rise to a duty to defend.
>
> . . . The mere possibility that [the plaintiff] might assert claims against Siliconix which are covered by Siliconix' insurance policies, at least where such a possibility is extremely remote and not suggested by either the complaint in the underlying action not by facts known to the insurer and the insured, is not a sufficient ground upon which to deny National Union's motion for summary judgment. (726 F.Supp. at 272.)

In addition, the court noted that since the trial of the underlying patent action was to have begun in less than a week, the underlying plaintiff was unlikely to amend its complaint to include covered claims.

Here, based on the allegations in the underlying complaints, it is apparent that petitioner's arguments for coverage are premised on the type of far-fetched and speculative arguments which California courts have consistently held are insufficient to create a duty to defend. There are no causes of action for trade dress or trademark infringement in the underlying complaints. Further, petitioners have presented no evidence tending to show that such underlying complaints could have been amended to assert such causes of action. Rather, petitioners were allegedly liable for misappropriation of trade secrets, for which California courts have consistently held that no coverage is provided.

4. The Decision Of The Ninth Circuit Does Not Conflict With State Or Federal Decisions Or Statutory Law In Holding That Misappropriation Of Trade Secrets Is Not Covered Under A Liability Insurance Policy.

In *Bank of the West v. Superior Court, supra,* 2 Cal.4th 1254, the California Supreme Court held that in order to satisfy the "in the course of" requirement, the alleged injury must have a causal connection with the insured's advertising activities. Further, in *Dogloo v. Northern Ins. Co. of New York,* 907 F.Supp. 1383 (C.D. Cal. 1995), the court stated that in order for advertising injury coverage to apply, the "advertising itself" must have actually

caused the injury.[3] (See also, *Iolab Corp. v. Seaboard Surety Co.* 15 F.3d 1500 (9th Cir. 1994); *Everest & Jennings, Inc. v. American Motorist Ins. Co.* 23 F.3d 226, 229 (9th Cir. 1994))[4]

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[3] Although the *Dogloo* court did find a duty to defend a case in which misappropriation of trade secrets was alleged, the court's decision that such a duty existed was based on the fact that the insured was allegedly liable for unfair competition under the Lanham Act. Thus, the *Dogloo* decision does not conflict with other cases construing California law which hold that there is no coverage for misappropriation of trade secrets.

[4] Although not decided under California law, several out-of-state cases have cited California decisions in holding that no coverage exists for allegations of trade secrets. Following the reasoning of *Bank of the West*, in the recent Minnesota case of *Polaris Industries, L.P. v. Continental Ins. Co.*, 539 N.W.2d 619, 621-22 (Minn. App. 1995), *rev. denied*, (1996) the insured sought coverage for allegations that it misappropriated trade secrets after it publicly announced that it had developed and produced the first electronic fuel-injected snowmobiles. The court observed that the advertising must directly or proximately cause the injury, not merely result from some other activities that were coincidentally advertised. Thus, the court held that the advertisement of previously misappropriated information, by itself, does not trigger advertising injury coverage.

The Supreme Court of Vermont also followed *Bank of the West* in *Select Design, LTD. v. Union Mutual Fire Ins. Co.*, 674 A.2d 798 (Vt. 1996), by requiring a causal nexus in a claim of misappropriation of trade secrets. The insured was sued because it hired an ex-employee of the plaintiff who had allegedly misappropriated proprietary information such as a customer list, existing orders and other customer information. However, the court found no coverage existed because the only relationship between the injury and advertising was that the ex-employee had to somehow contact plaintiffs' customers in order to steal them from the insured. The court found that this contact did not constitute advertising and thus, there was no causal relationship between the injury and advertising.

In *Microtec Research, Inc. v. Nationwide Mutual Ins. Co.* 40 F.3d 968 (9th Cir. 1994), the insured stole a competitor's computer compiler code and passed it off as its own in advertisements. The competitor sued Microtec for misappropriation of trade secrets, but carefully and conspicuously avoided suing for damages arising out the advertisements. The trial court determined on summary judgement that the insurer had no duty to defend the competitor's suit. The Ninth Circuit relied on *Bank of the West* and affirmed, finding no advertising injury coverage because the alleged misappropriation of the stolen code did not occur "in the course of" advertisements. The court noted that Microtec did not use the code in advertising activities in the same way that one might use a copyrighted piece of music. Rather, the court noted, the misappropriation caused the harm, not the advertisement. (*Id.* at 971.)

The few recent cases finding coverage for misappropriation of trade secrets have done so by ignoring or misapplying the "in the course of" advertising requirement.[5] For example, in *Sentex Systems, Inc. v. Hartford Accident & Indemnity Co.*, 882 F.Supp. 930 (C.D. Cal. 1995), *aff'd*, 93 F.3d 578 (9th Cir. 1996), an insured employed a former employee of a competitor in violation of a non-competition agreement and allegedly used confidential trade secrets to promote and advertise its products and

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[5] *See e.g., Rymal v. Woodcock*, 896 F.Supp. 637 (W.D. La. 1995) (holding, without considering the causation issue, that the insurer had a duty to defend a claim for misappropriation of trade secrets under an advertising injury endorsement because the policy ambiguously defined "advertising injury". However, this case was decided under Louisiana and not California law.)

solicit business from the competitor's customers. Sentex moved for summary judgement on its carrier's duty to defend under the advertising injury coverage. The district court held that advertising need not be the only cause of the injuries and that the insured need not prove causation at the duty to defend stage. *Id.* at 945. The court stated that in determining whether a causal connection exists, courts apply the "potential for liability" standard, which requires only that the cause of action arguably fall within the scope of coverage to create a duty to defend. The district court's decision in *Sentex* appears to have completely ignored the "causal connection" requirement.

The Ninth Circuit affirmed the district court's judgment based solely on the fact that the allegations of misappropriation of trade secrets at issue in *Sentex* could constitute a "misappropriation of advertising ideas". The court specifically stated that it was affirming on "narrower grounds" than those relied upon by the district court. Further, the court noted that the issue of whether the alleged advertising injury occurred "in the course of" advertising was not challenged on appeal. For this reason, the *Sentex* decision provides no controlling authority for the "in the course of" analysis. Further, contrary to petitioner's arguments, because the *Sentex* decision did not discuss the "in the course of" requirement, that decision does not contradict the Ninth Circuit's prior holding in *Simply Fresh*, which was based on a finding that misappropriation of trade secrets does not occur "in the course of" advertising.

Thus, there is no duty to defend allegations of misappropriation of trade secrets under the Continental policies. Such allegations of misappropriation do not concern

an offense occurring "in the course of" advertising. The Ninth Circuit held that it was the misappropriation of Reddi-Made's technology that caused Reddi-Made's alleged injuries, rather than any advertising activities conducted by petitioners. Petitioners can point to no relevant cases or statutes holding to the contrary.

Finally, this is an issue involving California law. Even if the Ninth Circuit's holding conflicted with decisions from other jurisdictions, such decisions would not be binding on California courts in determining whether coverage exists for misappropriation of trade secrets. For this additional reason, the petition should be denied.

CONCLUSION

For the foregoing reasons, the petition for writ of certiorari should be denied.

Dated: October 7, 1996

Respectfully submitted,

McCormick, Barstow, Sheppard, Wayte & Carruth LLP

James H. Wilkins
Attorneys for Respondent, Continental Insurance Company

Supreme Court, U.S.
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No. 96-333

IN THE
SUPREME COURT OF THE UNITED STATES
OCTOBER TERM, 1996

SIMPLY FRESH FRUIT, INC. & P&C SERVICES, INC.
Petitioners,

v.

THE CONTINENTAL INSURANCE COMPANY
Respondent.

ON PETITION FOR WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

REPLY TO BRIEF IN OPPOSITION

Harlan P. Huebner
Edouard V. Rosa, Counsel of Record
LAW OFFICES OF HUEBNER & ROSA
900 Wilshire Boulevard
Suite 1000
Los Angeles, California 90017
Telephone: (213) 626-7766

Attorneys for Petitioners.

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Questions Presented For Review

1. Whether potential claims for trade dress infringement, false designation of origin in violation of the Lanham Act and common law unfair competition inherently involve "advertising activity".

2. Whether as a matter of law patent infringement claims within the meaning of 35 U.S.C. Section 271 in effect prior to January 1, 1996 can occur in the course of an insured's advertising activities.

3. Whether under California law a "duty to defend" attaches to potential claims in violation of the Lanham Act and Patent Act.

4. Whether the decision of the Ninth Circuit in holding that misappropriation of trade secrets is not covered under a liability insurance policy conflicts with state or federal decisions or statutory law.

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ARGUMENT

1. **The Ninth Circuit Decision Holding That Patent Infringement Cannot Occur In The Course Of An Insured's Advertising Activities Is In Conflict With Prior Decisions Of The Supreme Court And Other Circuit Court Of Appeals.**

Respondent contends that petitioners have misconstrued prior Supreme Court and other Circuit Court of Appeals decisions concerning what constitutes "use" as it existed before amendment of 35 U.S.C. § 271(a) on January 1, 1996. However, as set forth below each case relied upon by petitioners does in fact support a showing that patent infringement may indeed occur in the course of an insured's advertising activities.

As a starting point, respondent's brief has ignored the precedential effect of the holding in *Roche Products, Inc. v. Bolar Pharmaceutical Co.*, 733 F.2d 851 (Fed. Cir. 1984), cert. denied 469 U.S. 856 (1984) (superseded in part by statute). There the Federal Circuit in considering the depth of the breadth of "use" that is covered by 35 U.S.C. § 271(a), prior to the patent statute being amended effective January 1, 1996, stated in pertinent part as follows:

> Title 35 U.S.C. § 271(a) incorporates the disjunctive language of the statutory patent grant which gives a patentee the "right to exclude others from making, using, or selling" a patented invention, 35 U.S.C. § 154 ....
>
> It is beyond argument that performance of only *one*

> of the three enumerated activities is patent infringement. It is well established, that the *use* of a patented invention, without either manufacture or sale is actionable. See *Aro Manufacturing Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 484 (1964); *Coakwell v. United States*, 372 F.2d 508, 510 (Ct. Cl. 1967). Thus, the patentee does not need to have *any* evidence of damage or lost sales to bring an infringement action (emphasis in original).

The Federal Circuit Court of Appeals also went on to hold in *Roche*, that the term "use" has never been taken "to its utmost possible scope". *Id.* at 891. Thus, it is abundantly clear from the *Roche* holding that "use" of a patented device in "advertising activities" squarely falls within the operative statutory provisions of 35 U.S.C. § 271(a). *Id.* at 861.

Moreover, in view of the subsequent Federal Circuit decision of *Beverly Hills Fan Co. v. Royal Sovereign Corp.*, 21 F.3d 1558 (Fed. Cir. 1994), the *Roche* decision has even more significance based upon its holding concerning the broad interpretation that the term "use" should be given under the patent laws. In *Beverly Hills Fan*, the Federal Circuit in addressing the issue of whether the law of any particular circuit should be applied in an issue that is "intimately related to substantive patent law" reasoned as follows:

> The application of an assumed Fourth Circuit law [as it effects the federal district court's exercise of jurisdiction over patent infringement], or for that matter, the law of any particular circuit, would thus not promote our mandate of achieving national

> uniformity in the field of patent law (citations omitted).
>
> The creation and application, of a uniform body of Federal Circuit law in this area [personal jurisdiction in patent law cases] would clearly promote judicial efficiency, would be consistent with our mandate, and would not create undue conflict and confusion at the district court level. Under circumstances such as these, we have held we owe no special deference to regional circuit law (citations omitted).[1] *Id.* at 1570-71.

Turning again to the specific holding in *Roche* where the court held that "the word 'use' in section 271(a) [of the patent statute] "has never been taken to its utmost possible scope", petitioners submit that such reasoning also fully supports a holding that patent infringement can in fact occur in the course of an insured's advertising activities. The plain meaning of the statutory language of 35 U.S.C. § 271(a) also substantiates a finding that patent infringement can be committed in the course of advertising activities. Any other conclusion would run afoul of the Federal Circuit holding in *VE Holdings Corp. v. Johnson Gas Appliance Co.*, 917 F.2d 1574 (Fed. Cir. 1990), *cert. denied*, 111 S. Ct. 1315 (1991). There the court held "[i]f the statutory language is clear, the plain meaning of the statute controls." *Id.* at 1579.

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[1] In *Beverly Hills Fan*, the court also noted that an "important role of the Federal Circuit is to eliminate forum shopping on either *substantive* or procedural grounds, consistency in this area would advance that role" (emphasis added). *Id.* at 1570. By analogy the Federal Circuit's role in determining the extent of "use" under the patent statute should also be given by the Supreme Court.

Petitioners' reliance on the cases of *Roberts v. Ryer* 91 U.S. 150, 157 (1875); *Markman v. Westview Instruments, Inc.*; 116 S. Ct. 1384 (1996); *Neff Instrument Corp v. Cohu Electronics, Inc.*, 269 F.2d 668, 674 (9th Cir. 1959) and *Pitcarin v. United States*, 547 F.2d 1106, 1125 (Ct. Cl. 1976), *cert. denied*, 434 U.S. 1051 (1978) are also directly on point as to the broad interpretation that should be given that term "use" in the patent setting. Moreover, contrary to respondent's attempts to constrain the true import of the latter two cases, these cases speak for themselves in not only following the spirit and intent of the subsequent Federal Circuit holding in *Roche*, but indeed directly support petitioners' conclusion that patent infringement can occur in the course of an insured's advertising activities.[2]

2. **The Conduct Alleged In The State Action Raised The Potential For Claims Of Trade Dress Infringement, False Designation Of Origin Under The Lanham Act And Common Law Unfair Competition And Inherently Involve "Advertising Activity".**

Respondent contends that the potential to amend the underlying trade secret complaint and/or federal patent infringement complaint by petitioners was too speculative and far-fetched to create a duty to defend. However, each case relied upon by respondent required that a new fact be alleged

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[2] Respondent's reliance on the case of *Intermedics, Inc. v. Ventritx, Inc.*, 775 F.Supp 1269 (N.D. Cal. 1991), *aff'd*, 991 F.2d 808 (Fed. Cir. 1993) to support its contentions that the "demonstration" of an accused product does not constitute a "use" is misplaced. In *Intermedics*, the court dealt with the effect of 35 U.S.C. § 271(e) (1) and its exemption as applied to FDA clinical testing. In the present case the product does not fall within the purview of the exemption.

to sustain a legal theory invoking coverage. In contrast, in the underlying state and federal actions filed against petitioners by Reddi-Made, the record on appeal substantiates potential claims that could have also been asserted before or during trial. Such claims petitioners submit include acts of trade dress infringement and false designation of origin under the Lanham Act and acts of common law unfair competition.

Petitioners' conclusion that the subject potential claims mandated coverage by respondent is also supported by the totality of allegations and certain deposition testimony taken in the trade secret action which were all made part of the record on appeal. See Petition Appendices ("PA") B-15, 19-20. For example, throughout the discovery period in the trade secret action, Reddi-Made's president made repeated references to the smooth edges of his cut fruit product and claimed that the visual appearance of the cut fruit disclosed his alleged proprietary fruit cutting process.[3] PA B-20. Moreover, Reddi-Made specifically included a claim of "unfair competition" in the caption of the state complaint. Thus, the totality of facts in the underlying trade secret action support potential claims for trade dress infringement, false designation of origin and unfair competition.

Petitioners' argument that a duty to defend arose on the part of respondent based upon the potential claims for trade

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[3] It is well grounded in trademark law that "trade dress" includes the shape and design of the product itself. *See Ideal Toy v. Plawner Toy Mfg.Corp.*, 685 F.2d 78 (3d Cir. 1982) (while historically "trade dress" referred to product packaging only, "trade dress" in its "more modern sense" refers to the appearance of the product); *Kohler Co. v. Moen, Inc.*, 12 F.3d 632 (7th Cir. 1993) ("broad definition of trade dress as applied by the courts includes product configurations").

dress infringement, false designation of origin and unfair competition claims is also well grounded under California law.

In determining whether a duty to defend exists, the California courts have consistently turned not on the nature of the remedies sought but rather the *potential* for substantive claims supported by the conduct of the insured. See *Montrose Chemical Corp. v. Superior Court*, 6 Cal. 4th 287 (1993). There the California Supreme court held that:

> "The duty to defend is a continuing one, arising on tender of defense and lasting until the underlying lawsuit is concluded or until it has been shown there is *no* potential for coverage" 295 (emphasis original). *Id.* at 295.

> [T]he insured is entitled to a defense if the underlying complaint alleges the insured's liability for damages potentially covered under the policy, or if the complaint might be amended to give rise to a liability that would be covered under the policy. *Id.* at 300.

Likewise, in *Horace Mann Insurance Co. v. Barbara B.*, 4 Cal. 4th 1076 (1993) the California Supreme Court held that in determining coverage the court must look "not to whether non-covered acts predominate in the third party's action, but rather to whether there is *any* potential for liability under the policy". *Id.* at 1086 (emphasis in original).

Moreover, the Ninth Circuit's holding in the present case contradicts the fundamental premise in trademark law that "allegations of trademark infringement and *trade dress*

infringement inherently involve advertising activity. (emphasis added)". See, *Poof Toy Products Inc. v. U.S. Fidelity and Guaranty Co.*, 891 F.Supp 1228, 1234 (E.D. Mich 1995).

In view of the totality of evidence made of record on appeal, the trade secret action and/or federal patent infringement actions could have been amended to assert the aforementioned claims before or during trial. Thus, because such conduct inherently involves "advertising activity" respondent had a duty to defend petitioners in the underlying actions.

3. The Ninth Circuit Holding That The Misappropriation Of Trade Secrets Claim Did Not Occur In The Course Of Petitioners' Advertising Activities Conflicts With California Case Law And Statutory Law.

Respondent contends that the causal connection between the advertising injury and advertising activity required under the California Supreme Court decision of *Bank of the West v. Superior Court*, 2 Cal. 4th 1254 (1992) is not present in the underlying actions as they relate to Reddi-Made's claim of misappropriation of trade secrets. Furthermore, respondent contends that the Ninth Circuit correctly held that there is no duty to defend the allegations of misappropriation of trade secrets in the state action because Reddi-made did not seek damages based upon petitioners' advertising activities but rather the alleged misappropriation of Reddi-Made's technology.

However, the Ninth Circuit holding is in contradiction of a long line of California case precedent on the duty to defend

as set forth in Section 2 of petitioners' reply. Moreover, the subsequent Ninth Circuit holding in *Sentex Systems, Inc. v. Hartford Accident & Indemnity Co.*, 93 F.3d 578 (9th Cir. 1996) has also misapplied California law by carving out an illogical exception to its prior decision in *Simply Fresh Fruit, Inc. v. Continental Ins. Co.*, 84 F.3d 1105 (9th Cir. 1996) by holding that the plaintiff in the underlying action for misappropriation of trade secrets had a "duty to defend" because plaintiff's "claims for misappropriation of trade secrets *related to marketing and sales* and not to secrets relating to the manufacture and production of security systems (emphasis added). *Id.* at 579.[4]

Contrary to the Ninth Circuit holdings in *Simply Fresh* and *Sentex*, the allegations and evidence made of record on appeal as identified above relative to Reddi-Made's claim for misappropriation of trade secrets directly substantiate that claims indeed occurred in the course of petitioners' advertising activities. This alleged misappropriation resulted in the alleged injury to Reddi-Made, whether the injury occurred at the time of the misappropriation, at the time petitioners advertised their cut fruit products at trade shows or at the time petitioners demonstrated the fruit cutting machine to their customers at their fruit processing facility. See PA A-4, B-20. Thus, there was at the minimum the possibility that the alleged injury occurred "in the course" of petitioners' "advertising activities" and that any liability on the part of petitioners would have been "as a result of" petitioners' alleged

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[4] In the *Simply Fresh* decision the Ninth Circuit took note of the fact that petitioners "would on occasion give prospective and current customers tours of their newly automated processing facilities in order to highlight the improved quality of their fruit products. See PA A-4.

misappropriation.

For example, the injury to Reddi-Made could have been that petitioners used Reddi-Made's know-how in developing petitioners' fruit cutting machine. Arguably, under this scenario the injury would have occurred when petitioners used Reddi-Made's alleged proprietary fruit cutting machine in processing cut fresh fruit to sell to petitioners' customers.

Conversely, the alleged injury to Reddi-Made could have been that Simply Fresh disclosed Reddi Made's alleged secret process for cutting fruit to customers at trade shows or in-house demonstrations that petitioners had no right to disclose. Under these set of circumstances the injury *would not have occurred* unless petitioners divulged Reddi-Made's secret process *in the course of petitioners' advertising activities*.

Given the liberal rules allowing amendments of pleadings and the fact that the defense was tendered by petitioners at an early stage of the litigation (PA B-15-16), there was a possibility that the alleged injury for which Reddi-Made sought relief in its state and federal complaints was causally connected to petitioners' advertising activities, *i.e.*, that it fell within the second scenario described above.

Petitioners' reasoning as set forth above is also in full accord with California case law governing the insured's reasonable expectation of coverage. The California Supreme Court has recognized that "[a]n insured buys liability insurance in large part to secure a defense of *all* claims potentially within policy coverage, even frivolous claims unjustly brought" (emphasis in original). *Horace Mann*, 4 Cal. 4th at 1086. Furthermore, the California Supreme Court

has also stated:

> It is elementary in insurance law that any ambiguity or uncertainty in an insurance policy is to be resolved against the insurer .... [I]f the doubt relates to extent or fact of coverage, whether as to peril insured against, the amount of liability, or the person or persons protected, *the language will be understood in its most inclusive sense, for the benefit of the insured* (emphasis added). *Insurance Co. of North America v. Sam Harris Constr. Co.*, 22 Cal. 3d 409, 412-413 (1978).

See also California Civil Code, §§ 1636, 1644, 1649 and 1654.

CONCLUSION

This case presents important issues concerning the extent of insurance coverage for claims of patent infringement, misappropriation of trade secrets, trade dress infringement and false designation of origin under the Lanham Act and common law unfair competition. In order to obtain uniformity in decisional law as it applies to both California and federal law in the intellectual property context, petitioners respectfully request this Court grant certiorari to review the issues.

Respectfully submitted,
LAW OFFICES OF HUEBNER & ROSA

HARLAN P. HUEBNER
EDOUARD V. ROSA, Counsel of Record
Attorneys for Petitioners.